Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

ANSWERS TO QUESTIONS FOR THE RECORD:

A Response After a Hearing on CBO's Budget Projections Conducted by the Subcommittee on Fiscal Responsibility and Economic Growth of the Senate Committee on Finance

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On October 7, 2020, the Subcommittee on Fiscal Responsibility and Economic Growth of the Senate Committee on Finance convened a hearing at which Phillip L. Swagel, the Congressional Budget Office's Director, testified about the agency's report The 2020 Long-Term Budget Outlook.[1] *After the hearing, Senator Wyden submitted questions for the record. This document provides CBO's answers. It is available at www.cbo.gov/publication/56946.*

Senator Wyden's Question About the Hospital Insurance Trust Fund

Question. According to the 2010 Medicare Trustees Report, policies enacted by the Affordable Care Act (ACA) to lower Part A costs and increase Medicare payroll tax revenues were estimated to extend the solvency of the Hospital Insurance (HI) Trust Fund by 12 years (until 2029). The Trump Administration is currently backing a lawsuit that seeks to invalidate the ACA. If the Supreme Court strikes down the law, these policies will be reversed. If a policy or policies that increased payroll tax revenues into the HI trust fund were reversed, such that future revenues coming into the trust fund decreased, what effect would this have on the balance and solvency of the HI trust fund? If a policy or policies that lowered outlays from the HI trust fund were reversed, such that future outlays from the trust fund increased, what effect would this have on the balance and solvency of the HI trust fund?

Answer. If payroll taxes dedicated to the HI trust fund were reduced, the trust fund would be exhausted sooner. The resources to redeem government bonds in the HI trust fund and thereby pay for Medicare benefits in some future year will have to be generated from taxes, other government income, or government borrowing in that year. Hence, having fewer resources available in the government's overall budget would decrease its ability to pay for Medicare and other programs in the future.[2]

1. See Testimony of Phillip L. Swagel, Director, Congressional Budget Office, before the Subcommittee on Fiscal Responsibility and Economic Growth of the Senate Committee on Finance, *The 2020 Long-Term Budget Outlook* (October 7, 2020), www.cbo.gov/publication/56665.

2. For more discussion about how the HI trust fund works and is affected by changes in outlays, see Congressional Budget Office, letter to the Honorable Jeff Sessions providing additional information on the effect of the Patient Protection and Affordable Care Act on the Hospital Insurance Trust Fund (January 22, 2010), www.cbo.gov/publication/20980.

Senator Wyden's Questions About the 2017 Tax Act

Question. How much has the 2017 tax law added to the national debt since enactment?

Answer. In April 2018, CBO projected that the 2017 tax act would increase deficits by a total of about $1.9 trillion over the 2018–2028 period; that estimate included the effects of macroeconomic feedback (that is, the ways in which the act would affect the budget by changing the overall economy) and changes in debt-service costs. The 2017 tax act was expected to increase the cumulative deficit for fiscal years 2018 through 2020 by $664 billion.[3] CBO has not updated those estimates.

Question. Together, how much are the reductions in the top individual tax rate and the corporate tax rate, the change to the estate tax exemption, and the pass-through deduction for taxpayers in the top individual income tax bracket of the 2017 tax law projected to add to the national debt over (a) the next 10 years and (b) by 2050, assuming expiring provisions are all extended?

Answer. Various provisions of tax law interact with each other, so any particular combination of potential legislative changes has to be analyzed as a package relative to what tax law would be absent those changes. In producing its baseline revenue projections, CBO has not estimated the combined effects of the policies that you have specified.

Senator Wyden's Question About Social Security

Question. In 2016, the Chief Actuary of the Social Security Administration wrote "By removing the presumed increases in publicly held debt for OASDI and HI after reserve depletion, we see that the projected publicly held debt, reflecting assumed operations of the rest of the federal government, actually declines substantially after 2030 and never reaches 100 percent of gross domestic product (GDP). The overall declining level of debt is notable. This means that the projected operations of the federal government—other than OASDI and HI—are projected to be in balance, or even surplus." The Actuary's analysis appears to be significantly different

3. See Congressional Budget Office, *The Budget and Economic Outlook: 2018 to 2028* (April 2018), Appendix B, www.cbo.gov/publication/53651.

than the analysis that was produced by CBO at that time. What were CBO projections for publicly held debt after removing the presumed increases in publicly held debt for OASDI and HI after reserve depletion in 2016? Under the same conditions, what are CBO's projections for 2030, 2040 and 2050?

Answer. In CBO's extended baseline projections, the payment of full Old-Age, Survivors, and Disability Insurance (OASDI) benefits and full HI benefits as calculated under current law is assumed to continue regardless of the amounts available in the programs' trust funds. In those projections that were made in 2016, federal debt held by the public rose from 75 percent of GDP in 2016 to 141 percent in 2046. CBO also projected what would occur if Social Security benefits (but not HI benefits) were limited to the amounts payable from revenues received by the trust funds.[4] (At that time, CBO anticipated that the two Social Security trust funds combined would be exhausted in calendar year 2029.) Under that scenario, CBO projected in 2016 that debt in 2046 would reach 101 percent of GDP—a higher percentage than in 2016 but less than the percentage projected in the extended baseline.

In those 2016 projections, the debt in 2040 was 122 percent of GDP under the extended baseline and 99 percent of GDP under the payable benefits scenario. In 2030, the amounts were 94 percent and 93 percent of GDP, respectively. If HI outlays were also constrained by the trust fund balances, debt over the long term would be a smaller percentage of GDP.

Senator Wyden's Question About the Nation's Fiscal Position

Question. Do deep tax cuts like the 2017 tax law during times of economic growth materially worsen our country's fiscal position for when the federal government later has to respond to an economic crisis like the recession resulting from the Coronavirus outbreak?

Answer. Although the 2017 tax act was projected to increase budget deficits through 2026, policymakers can currently use fiscal policy to respond to the 2020 recession (by taking measures in addition to the Coronavirus Aid, Relief, and Economic Security Act and other legislation enacted so far). But the larger debt caused by the tax act may constrain policymakers' choices in the future.

In CBO's assessment, high and rising debt has the following consequences for the economy in the long term:

- The government's borrowing costs eventually rise, reducing business investment and slowing economic growth;
- Larger interest payments to foreign holders of U.S. debt subtract from the nation's income;
- A fiscal crisis, in which interest rates abruptly escalate or other disruptions occur, becomes a greater risk; and
- Higher rates of inflation and a loss of confidence in the dollar have greater chances of occurring.

The United States is not facing an immediate fiscal crisis. The current low interest rates indicate that the debt is manageable for now and that the Congress could use fiscal policy to address national priorities if it chose to do so. In CBO's projections, interest rates remain low for several years as the economy recovers from the effects of the pandemic, partly because the Federal Reserve is working to keep them low.

4. See Congressional Budget Office, *The 2016 Long-Term Budget Outlook* (July 2016), Box 6-1, www.cbo.gov/publication/51580.